

Transforming Government To Thrive, Not Just Survive, in Changing Times

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There's an old saying that the only sure things in life are death and taxes. I can reassure you, however, that I'm not going to be talking about either of these subjects. Instead, I'm going to talk about another certainty in our world, and that's the certainty of change. And change brings with it both opportunity and risk.

I'm sure I don't need to tell any of you that the world has changed significantly in the past 20 to 30 years. But the truth is that we're poised to see even greater change in the next 20 to 30 years. Whether we're talking about for-profit companies, not-for-profit entities, or government agencies, any organization that fails to adapt to this accelerating pace of change risks becoming irrelevant.

At the end of the 19th century, the original Dow Jones Industrial Average consisted of 12 stocks. These were all large, powerful companies that dominated their respective industries. National Lead, U.S. Rubber, and Tennessee Coal and Iron were the Microsofts and Walmarts of their day. It's sobering to realize that of the original 12 Dow Jones companies, only one has managed to survive until today, and that's GE. The other companies simply couldn't adapt to changing conditions and either merged with stronger competitors or vanished completely.

This morning, I'm going to focus on the long-term challenges facing government, though many of these issues also have serious implications for the private sector. I'm going to talk about the need for federal agencies to focus more on the future and transform their current organizations and operations to meet the challenge of changing times. I'm then going to discuss the ongoing transformation efforts at my agency, the U.S. Government Accountability Office (GAO), which is in the vanguard of the federal government's transformation effort. I'm confident that many of the lessons learned at GAO could prove useful for organizations both inside and outside of government.

The Challenges We Face

Today, more than ever, our nation and government need to start planning for a range of societal changes that we know are coming. We need to start stepping up to the plate and making difficult decisions aimed at securing our collective future. What's at stake is nothing less than America's continuing role as a superpower, our continuing economic growth, the future quality of life for our children and grandchildren, and the future security of our nation.

We face a number of important long-term demographic changes. For example, during the next 50 years, the ratio of workers to retirees is expected to decline dramatically.

Like most industrialized nations, the United States now faces the prospect of fewer relative active workers caring for more retirees with longer life spans. The retirement of the “baby boomers,” of which I am one, will place unprecedented strains on both our public and private pension and health care systems.

Beyond these demographic trends, the United States confronts emerging challenges in other areas. Our world is being shaped by forces that aren’t restricted by national borders or natural boundaries. We’re seeing increasing globalization in many areas, including markets, technologies, and businesses. The fortunes of once-distant economies are now linked, and global communications are now virtually instantaneous.

Environmental and public health issues are also global in scope. As you can imagine, air and water pollution don’t just stop at the border. And with today’s international air travel, infectious diseases can spread from one continent to another literally overnight. This is one reason experts are so concerned about avian flu.

With the end of the Cold War, we face new security threats, including transnational terrorist networks and rogue nations armed with weapons of mass destruction. These require multi-national cooperation in order to be successful.

We face technological innovations that have transformed everything from how we do business to how we treat and cure diseases. Our society has moved from the industrial age to the information age, where specialized knowledge and skills are the keys to success. Unfortunately, the United States is number 25 in the world on K through 12 education results. This should be a big flashing red light in today’s knowledge-based economy.

We also face a range of quality-of-life issues, from educating our people to protecting the environment to balancing the demands of work and family. We and other nations also face growing energy challenges with significant economic, environmental, and security implications. And recent events have underscored the importance of being prepared for both natural and man-made disasters.

But perhaps the most urgent yet lesser known challenge is our nation’s worsening financial condition and growing long-term fiscal imbalance. Largely due to the aging of the baby boomers, rising health care costs, and relatively low federal revenues as a percentage of the economy, America faces a rising tide of red ink. The government’s recent spending binges and tax cuts have combined to hemorrhage our bottom line.

At the same time, much of our nation’s fiscal policy remains on autopilot, a strategy that is both imprudent and unsustainable. Government continues to expand, with new federal programs and initiatives added every year to a base that continues to grow. Importantly, we rarely seem to question the wisdom of existing federal commitments. Ronald Reagan once said that “the nearest thing to eternal life we’ll ever see on this Earth is a government program.”

If our government continues as it has, it's only a matter of time before we face a serious crisis. And at that point, we won't be in a position to choose. The choices will have been made for us.

Despite what some say, deficits do matter—especially if they're large and structural in nature. As the official who signs off on the audit of the government's consolidated financial statement, I'm here to tell you that our nation's financial condition is worse than advertised. Candidly, the government's business model is broken and it's time we fixed it.

Anyone who says we can grow our way out of the problem probably wouldn't pass economics 101 or basic math. To grow our way out, we'd have to have sustained economic growth way beyond what we saw during the boom years of the 1990s. It's just not going to happen, and the sooner we recognize that reality, the sooner we can look for real solutions.

Last year, despite strong economic growth, the federal budget deficit reached a record \$412 billion. But the truth is that every dime of the Social Security trust fund surpluses went for government operating expenses, so the federal on-budget deficit for 2004 was actually closer to \$567 billion. Of this amount, less than \$100 billion related to Iraq, Afghanistan, and incremental post-9/11 homeland security costs.

Our federal deficit numbers are big and bad, but it's the government's long-term liabilities and unfunded commitments that are the real threat. I'm talking about things like unfunded promises for Social Security and Medicare, military and civilian retirement benefits, costly environmental cleanups, and potential bailouts of government-sponsored enterprises like the Pension Benefit Guaranty Corporation. Together, these items now total over \$46 trillion, up from about \$20 trillion in 2000. In fiscal year 2004 alone, the government's liabilities and unfunded commitments rose by \$13 trillion, largely because of the new Medicare prescription drug benefit. And these numbers don't even take into account the massive relief and reconstruction costs from Hurricane Katrina, currently \$60 billion-plus in supplemental appropriations, with more to come.

To help put this number into perspective, \$46 trillion translates into more than \$150,000 per American and about \$350,000 per part-time worker. Even with the recent run-up in housing prices, the combined net worth of every American, including Bill Gates, Warren Buffet, and other billionaires, is only about \$48 trillion. That means everyone in this room would have to give up over 95 percent of his or her net worth just to cover the government's current promises for future spending.

Clearly, a crunch is coming, and eventually every federal department, including the Department of Defense and the Department of Homeland Security, will feel its impact. Long-range simulations from GAO show that without meaningful changes, increasingly drastic actions on spending and taxes will be required to balance the budget. By 2040, if nothing is done and all tax cuts are made permanent, the federal government could be reduced to doing little more than paying interest on the national debt. If this isn't a "burning platform" that should drive fundamental change, we're in trouble.

But the time to start doing something is now. There's a real payoff for prompt action. By making tough choices sooner rather than later, we can minimize the need for drastic measures down the road and we can give everyone more time to adjust to any changes. We can make the miracle of compounding work for us rather than against us, as it is now. We can avoid a dangerous upward spiral of deficits and debt. Importantly, we can also fulfill our stewardship responsibility to future generations of Americans.

Transforming Government

If our government is to have any hope of addressing these challenges, every federal agency and every federal program is going to have to give careful thought to its current and future missions and operations. As I said earlier, the problem is that much of government today remains on autopilot and is based on conditions that existed decades ago. This is inappropriate, imprudent, and unsustainable. It's time to transform government to better meet current needs and the many challenges that lie ahead.

We need to ask a series of basic questions about what government does and how it does business. For example, what is the proper role of the federal government in the 21st century? How should it be organized? Should contractors and/or federal employees do the government's work? How much will it cost? How should it be financed? Who should pay for it?

Nothing less than a top-to-bottom review of federal activities is needed to determine whether they are meeting their objectives and to free up resources for other needs. Many current federal programs, policies, functions, and activities are based on conditions that existed when Dwight Eisenhower and John Kennedy were in the White House. Congress and the President need to decide which of these policies and programs remain priorities, which should be overhauled, and which have simply outlived their usefulness. Similar efforts will also be required at most state and local levels.

To help in this effort, GAO recently published an unprecedented report that asks a series of illustrative questions about both mandatory and discretionary spending and tax policy. I should stress that while GAO isn't a policymaking institution, decades of experience and expertise put GAO in a unique position to pose a range of substantive and thought-provoking questions that policy makers need to address.

GAO's report is called "21st Century Challenges: Reexamining the Base of the Federal Government," and you can find it on our website at www.gao.gov. In my view, this is must reading for anyone who's interested in public policy and our nation's future.

The government areas needing review and reexamination go well beyond Social Security and Medicare. Let me give you a few examples of questions from GAO's "21st Century Challenges" report:

- Do we need to change the traditional allocation of resources across the armed services and defense programs to better address current and likely future threats?

- Do we need to update the criteria for federal disability programs in response to medical advances and changing labor market conditions?
- Do we need to introduce health care industry standards for acceptable care and payment reforms to ensure adequate and affordable medical treatment for all Americans?
- Is it time to reconsider various tax incentives because they fail to achieve their objectives, their costs outweigh their benefits, or they duplicate other programs? I'm talking about things like the health care exclusion and the home mortgage interest deduction.

My hope is that policymakers and the public will begin to think more strategically about where we are; where we're headed; and, more importantly, what we need to do to get back on a more prudent path. I'm also hopeful that GAO's work will also spur the development of a set of key national indicators and a much-needed and long-overdue baseline review of the federal government. Such a set of key national indicators would help to improve strategic planning, enhance performance and accountability reporting, and facilitate the much needed baseline review of the federal government. We've been working with the National Academies; the Organisation for Economic Cooperation and Development, better known as the OECD; and others to help make this a reality.

Cultural transformation will be an essential part of this process. Federal agencies today tend to be hierarchical, process oriented, stove piped, rigid, and inwardly focused. In the future, we will be better served by agencies that are flatter, more partnerial, results oriented, integrated, agile, and externally aware.

Transforming government isn't something that will happen overnight. Success or failure will depend on sustained leadership that transcends the efforts of a single person or a single Administration. Elected, appointed, and career officials will need to work together closely for a sustained period of time—perhaps a generation or longer. Public officials will need to reach across institutional lines and partner with other federal agencies, businesses, professional organizations, and nonprofit groups. It's going to take patience, persistence, perseverance, and ultimately pain before we prevail in transforming government. But prevail we must.

The New GAO

I'd like to talk now about my agency, the GAO, and our efforts to lead by example in the transformation area. I think it's important to clarify what GAO does and does not do. Many people think GAO keeps the government's books and records. That's actually the job of the Treasury Department, the Office of Management and Budget, and the chief financial officers at the various federal agencies. I should point out that last year we changed our name from the "General Accounting Office" to the "Government Accountability Office" to better reflect our current role and mission in government.

GAO is an independent agency in the legislative branch. We're sometimes called the "investigative arm of Congress" or the "congressional watchdog" because GAO helps Congress oversee the rest of government. We're in the business of helping government work better and holding it accountable to the American people. To this end, GAO provides Congress with oversight of agency operations, insight into ways to improve government and foresight about future challenges.

Most GAO reports go beyond the question of whether federal money is being spent appropriately to ask whether federal programs and policies are meeting their objectives and the needs of society. GAO also typically looks at the results that departments and agencies are getting with the taxpayer dollars they spend.

The scope of GAO's work today includes virtually everything the federal government is doing or thinking about doing anywhere in the world. You might be surprised to learn that GAO analysts have been in Iraq recently looking at everything from military logistics to contracting costs to the U.N.'s oil-for-food program. We're also already investigating a range of issues related to Hurricane Katrina.

Our work has impact because key players in Washington know they can count on the facts and non-partisan and non-ideological analyses in GAO reports. Members of Congress from both parties routinely use GAO reports as the basis for hearings, floor statements, and legislation. In news stories, GAO continues to be one of the most cited sources in the U.S. and the world.

How do we consistently deliver such high-quality work? When I became Comptroller General nearly seven years ago, I made GAO's own transformation a top priority. "Leading by example" became one of GAO's main objectives. And ever since, we've been working hard to be number one and stay number one in a range of areas, partly to show other government agencies how things can be done.

The keys to our success are straightforward:

- We seek to lead by example in all major operational areas.
- We focus on outcome-based results.
- We meet the legitimate needs of our congressional clients.
- We hire great people, empower and invest in them, and reward their performance.
- We leverage technology.
- And we partner with others, both domestically and internationally, on issues of mutual interest and concern.

Consistent with these efforts, our four key performance dimensions are:

- Outcome-based results.
- Client/Customers.
- People.
- Partnerships.

As Comptroller General, I serve a 15-year term of office, which helps to insulate GAO from day-to-day political pressures. This long term of office has also enabled me to introduce and lead a range of organizational changes designed to enhance our performance and better position us for the future.

Webster defines “transformation” as an act, process, or instance of change in structure, appearance, or character. The goal of transformation is to create a more positive future by maximizing value and mitigating risk within current and expected resource levels.

To successfully transform an organization, you need to focus on people, process, technology, and environment. We started our transformation efforts by putting together GAO’s first ever strategic plan in the spring of 2000. GAO’s strategic plan is a roadmap that guides all of our agency’s activities, both internally and externally. The strategic plan defines our mission, lays out the key trends and themes that GAO will focus on, and outlines the agency’s goals and objectives. We’ve been updating our plan every two years to reflect changing congressional needs and national priorities.

GAO’s own strategic goals are ambitious but straightforward. We seek to produce positive and measurable outcome-based results for Congress and the American people. Fortunately, for various reasons, our outcomes have doubled in many major categories over the past six years. We also try to meet the needs of our congressional clients. At the same time, we want to help reinvent government so that it continues to meet the needs of its citizens. And finally, GAO aspires to become a model federal agency and a world-class professional services organization that just happens to be in the federal government.

With the strategic plan in place, we reassessed our organizational structure and resource allocations. In my view, it’s important to try to minimize the number of layers, players, and silos in an organization while ensuring appropriate responsibility and accountability at the unit and individual level. Consistent with this philosophy, GAO completed a major realignment in 2001 that eliminated an organizational level, trimmed the number of organizational units from 35 to 13, reduced the number of field offices from 16 to 11, redistributed resources, and promoted internal teamwork and external partnerships.

Our budgeting and spending decisions are now guided by GAO’s strategic plan. For example, people, dollars, and technology are consistently allocated with an eye toward the agency’s goals and objectives.

Focusing on results has also been a central part of GAO’s transformation efforts. Since 2000, GAO has issued annual performance and accountability reports that inform Congress and the American people about GAO’s accomplishments and its plans for the coming year. Our progress in meeting each strategic goal is also highlighted. For example, in fiscal year 2004 the adoption of various GAO recommendations generated a record \$44 billion in financial benefits. That’s a \$95 return on every dollar invested in GAO. We also made more than 2,000 recommendations to improve government operations. Importantly, on the basis of our fiscal 2004 results, more than eighty percent

of GAO's recommendations are eventually acted on by Congress or the relevant agency, up from about fifty percent in the last 10 years.

In recent years, GAO has become a modern, multidisciplinary professional services organization with more than 3,200 employees, including economists, social scientists, physicians, engineers, attorneys, and accountants as well as specialists in areas from national security to Social Security. You name the profession; you can probably find it at GAO.

GAO has sought a series of legislative reforms and undertaken many internal human capital initiatives to help us recruit, retain, and motivate a first-rate workforce. Among other things, we've made great strides in modernizing our job classification, performance management, and compensation systems. For example, we've adopted a much flatter and more flexible classification system, while moving to competency-based performance appraisals, along with a more market-based and performance-oriented pay system. We've also integrated our institutional, unit, and individual performance measurement and reward systems.

In recent years, GAO has pioneered the use of innovative practices to help us do our work more economically, efficiently, and effectively. An overwhelming majority of GAO reports are now posted on GAO's external website on the day they are publicly issued. The elimination of printing costs has generated significant savings for the taxpayer, but, just as important, on-line posting has given Congress, the press, and the public immediate access to GAO's work.

To give GAO staff the tools they need to get the job done, GAO continually invests in new computer hardware and software. In fact, for the second year in a row, *CIO Magazine* recently rated GAO among the top 100 organizations nationwide in information technology management. Likewise, more and more of the agency's support services are being automated. All GAO employees now use a web-based time and attendance system, and they have on-line access 24 hours a day to nearly 1,000 training classes.

Importantly, early in my tenure, GAO adopted a set of three core values—accountability, integrity, and reliability—to help define our institutional beliefs and boundaries. These core values are intended to supplement the requirements of the law and various professional standards. If you come to Washington, D.C., you can see these core values over the entrance to GAO's headquarters. They're also on our business cards.

- Accountability is at the heart of GAO's mission. We help to ensure the accountability of the executive branch to Congress and to the American people.
- Integrity conveys the character of GAO's workforce. On every assignment, GAO employees must be professional, objective, fact-based, non-partisan, non-ideological, fair, and balanced.
- Reliability refers to the content of GAO's products—those blue-book reports and other GAO documents that Members of Congress hold up during hearings, press

conferences, and floor debates. Anyone who reads a GAO study can have confidence in the facts and analyses it contains.

These core values are a touchstone for everything GAO does. For example, they guide our dealings with our congressional clients and ensure that every congressional request is treated fairly and consistently. More importantly, they are in the heads and hearts of every GAO employee. GAO's core values help me and other GAO professionals deal with complex and controversial issues more quickly and comfortably.

When considering organizational changes like these, top management must be willing to tap into the ideas of rank-and-file federal employees. Obviously, the people on the front lines often have the best sense of what's working, what needs to be fixed, and how things can be improved. In the case of the federal government, many civil servants are uniquely positioned to help realign programs to better meet objectives, to point out inefficiencies, and to fine tune federal services to ensure that the taxpayer gets the best possible return on investment.

A successful leader and "change agent" gathers the best available information from every level of his or her organization before arriving at a decision. Once a CEO has the facts in hand, he or she should do what is right even though it may be unpopular. The leader also needs to effectively communicate key institutional decisions and the reasons for them.

At GAO, we established an elected 22-member Employee Advisory Council (EAC) that meets with GAO's Executive Committee at least once a quarter to discuss issues of mutual interest and concern. GAO also regularly solicits employee feedback on all aspects of the agency's operations. Employees are, after all, an organization's most valuable asset, and they must be heard and, when appropriate, heeded. Leaders should go out of their way both to inform and empower their employees. They should also mentor those who will follow in their footsteps. That's part of our stewardship responsibility.

Listening and responding to employees' concerns and comments are particularly important during a time of change. As Comptroller General, I make it a point to talk to all GAO employees via live videocasts at least once a quarter. I typically address our various transformation efforts and other current developments. Importantly, I also answer questions from EAC representatives based on input they've received from GAO employees.

This is not to suggest that leadership requires acquiescence to popular sentiment. As Harry Truman once asked, "How far would Moses have gone if he had taken a poll in Egypt?" In my experience, this is particularly true when it comes to changes that affect an employee's job classification, performance evaluation, or pay levels.

From a broader perspective, people define an organization's character and are the engine of change in our knowledge-based economy. Although people, process, technology, and environment all play a role in implementing change, the most important of these factors

is by far people. As a result, there should be a strong commitment to attracting, retaining, and investing in top talent.

Unfortunately, most federal agencies have neglected human capital management for years. The 1990s saw a poorly planned and numbers-driven campaign to downsize government. Today, the federal workforce is smaller, but it's also out of shape and suffers from skills imbalances. Furthermore, while it's predicted that more than half of all federal executives employed in 2000 will be eligible to leave government by 2007, few agencies have succession plans in place.

A growing human capital crisis now threatens the ability of some agencies to carry out their missions. The situation is so serious that GAO put "strategic human capital management" on its list of high-risk government areas in 2001, and it remains on our 2005 list.

Government workers are not the problem. It's primarily the absence of strategic planning, the continued use of outdated personnel policies and practices, and the frequent turnover in top federal leadership that have gotten us where we are today. The truth is that government transformation will occur only when leaders in government view federal employees as an asset to be developed rather than a cost to be cut. We need more enlightened, committed, and sustained leadership throughout government to move things along. At selected federal agencies, especially the Department of Defense, we also need to create COO/CMO positions and fill them with qualified professionals with term appointments and performance contracts.

The philosopher and missionary Albert Schweitzer said, "Example is leadership." As anyone who knows me will tell you, I'm a big believer in the principle of leading by example. Leadership provides an opportunity and an obligation to help show others the way forward and demonstrate how things can and should be done. Whether they're a corporate executive or an agency head, those at the top must set the professional and ethical tone for the rest of the organization. After all, leaders who are both credible and trusted are more likely to motivate and inspire others.

Successful leaders also take seriously their stewardship responsibilities—not just to their organization and its stakeholders but to society as a whole and to future generations. In my view, every leader has an inherent obligation to leave his or her organization, whether it's a company or a federal agency, not just better off than when they came but better positioned for the future. Responsible leaders seek positive results, but not by mortgaging the future.

I firmly believe that GAO is not only performing well, but we are well positioned for the future. We're not perfect, and we never will be. But we're committed to continuous improvement and to meeting the needs of our clients and the public. The name of the game for any organization is to stay agile and relevant in today's world.

In the years ahead, it's going to be necessary to adapt to changing circumstances while transforming organizations. In simpler terms, we're going to need to learn to change

tires while the car is still moving. We're also going to need to capitalize on the opportunities created by change while managing the related risks.

Today, our country is at a crossroads. The changes that policymakers make or fail to make in the next 10 years will have a profound effect on our country and its citizens. I hope you'll join with me in demanding the kind responsive government that can meet the challenges arising from an immediate crisis like Hurricane Katrina while positioning itself to successfully address both current and future challenges in these changing times. Such a transformation is essential if we hope to secure a more positive future for our country, our children, and our grandchildren.